

**OLIVET COLLEGE**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with additional information)**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Olivet College  
Lansing, Michigan

August 31, 2006

We have audited the accompanying statement of financial position of Olivet College as of June 30, 2006, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Olivet College as of June 30, 2005, were audited by other auditors whose report dated August 18, 2005, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Olivet College as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2006, on our consideration of Olivet College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



**OLIVET COLLEGE**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2006 AND 2005**

	2006	2005
<b>ASSETS</b>		
Cash	\$ 162,411	\$ 90,944
Cash and equivalents held for investment purposes	180,396	312,375
Total cash and cash equivalents	342,807	403,319
Student accounts receivable (less allowance of \$1,100,000 in 2006 and \$1,018,000 in 2005)	531,460	449,975
Other receivables	203,410	130,083
Due from federal and state governments	79,100	48,046
Inventory - maintenance supplies	163,047	163,239
Inventory - bookstore	174,902	160,772
Deposits, prepaid expenses and other assets	27,490	27,490
Pledges receivable (less allowance of \$55,000 in 2006 and \$60,000 in 2005)	226,507	296,196
Notes receivable (less allowance of \$200,000 in 2006 and 2005)	1,680,538	1,685,948
Land, buildings and equipment - net of accumulated depreciation	17,271,423	16,878,224
Investments	10,338,303	9,951,947
Beneficial interest in split-interest agreements	2,781,017	2,600,843
Deferred loan issuance costs (net of accumulated amortization of \$79,638 and \$67,401, in 2006 and 2005, respectively)	165,096	177,336
Total assets	<u>\$ 33,985,100</u>	<u>\$ 32,973,418</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 743,969	\$ 562,720
Accrued compensation and other liabilities	1,097,060	1,365,521
Accrued interest payable	83,369	87,494
Student deposits	234,282	170,484
Short-term notes payable	5,318,000	5,998,000
Contract - Chartwell's	1,000,969	
Federal student loan payable	1,600,805	1,579,450
Long-term debt	6,387,443	6,733,419
Long-term liabilities due in one year	354,565	340,291
Liabilities under gift annuities	553,214	480,000
Liabilities under split-interest agreements	114,039	48,893
Total liabilities	17,487,715	17,366,272
Net assets:		
Unrestricted	2,151,990	1,471,378
Temporarily restricted	2,037,237	2,041,988
Permanently restricted	12,308,158	12,093,780
Total net assets	16,497,385	15,607,146
Total liabilities and net assets	<u>\$ 33,985,100</u>	<u>\$ 32,973,418</u>

See notes to financial statements.

**OLIVET COLLEGE**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	Year ended June 30, 2006				Year ended June 30, 2005			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue								
Tuition and fees	\$ 17,002,757	\$	\$	\$ 17,002,757	\$ 15,640,154	\$	\$	\$ 15,640,154
Less: Scholarships and other student aid	7,838,463			7,838,463	7,052,549			7,052,549
Net tuition and fees	9,164,294			9,164,294	8,587,605			8,587,605
Capital Campaign net contributions		37,249		37,249		603,975		603,975
Contributions - Annual fund	562,525	264,480		827,005	418,913	328,566		747,479
Contributions - Debt retirement	530,170			530,170	173,000			173,000
Contributions - Bequests	308,418			308,418				
Contributions and bequests for endowment		41,544	107,418	148,962			162,276	162,276
Federal and state grants and contracts		259,952		259,952		249,511		249,511
Interest and dividends	57,984	75,951	43,533	177,468	116,195	108,938		225,133
Realized and unrealized gains on investments		388,078	224,398	612,476		513,679		513,679
Change in split-interest agreements			(160,971)	(160,971)		2,721	58,658	61,379
Miscellaneous income	216,098	214,786		430,884	201,531	223,615		425,146
Auxiliary revenue	4,258,805			4,258,805	3,877,527			3,877,527
Recording of charitable remainder unitrust liability							(480,000)	(480,000)
Assets released from restrictions:								
Capital campaign satisfied restrictions					29,003	(29,003)		
Other	1,286,791	(1,286,791)			2,152,996	(2,257,458)	104,462	
Total revenue	16,385,085	(4,751)	214,378	16,594,712	15,556,770	(255,456)	(154,604)	15,146,710
Expenses								
Education and general	12,004,379			12,004,379	12,605,030			12,605,030
Auxiliary	3,700,094			3,700,094	3,499,639			3,499,639
Total expenses	15,704,473			15,704,473	16,104,669			16,104,669
Change in net assets	680,612	(4,751)	214,378	890,239	(547,899)	(255,456)	(154,604)	(957,959)
Net assets, beginning of year	1,471,378	2,041,988	12,093,780	15,607,146	2,019,277	2,297,444	12,248,384	16,565,105
Net assets, end of year	\$ 2,151,990	\$ 2,037,237	\$ 12,308,158	\$ 16,497,385	\$ 1,471,378	\$ 2,041,988	\$ 12,093,780	\$ 15,607,146

See notes to financial statements.

**OLIVET COLLEGE**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
INCREASE (DECREASE) IN CASH:		
Cash flows from operating activities:		
Change in net assets	\$ 890,239	\$ (957,959)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	863,339	790,498
Contributions restricted for long-term investments and capital projects	(37,249)	(603,975)
Realized and unrealized losses on long-term investments	(612,476)	(513,679)
Student accounts and notes receivable	(158,535)	63,712
Increase (decrease) in student allowance	82,460	(417,365)
Other receivables	(73,327)	50,211
Pledges receivable	69,689	191,737
Inventories, prepaids, and deposits	(13,938)	(44,869)
Due from federal and state governments	(31,054)	70,610
Accounts payable	181,249	232,624
Accrued interest payable	(4,125)	(11,151)
Accrued compensation and other liabilities	(268,461)	31,806
Student deposits	63,798	22,049
Change in beneficial interest in split-interest agreements	(180,174)	(58,658)
Change in liabilities under split-interest agreements	125,625	488,960
Total adjustments	6,821	292,510
Net cash provided (used) by operating activities	897,060	(665,449)
Cash flows from investing activities:		
Purchase of land, buildings and equipment	(243,329)	(1,301,917)
Proceeds from sale/purchase of investments - net	226,120	
Proceeds from sale of investments		7,155,785
Purchase of investments		(7,008,736)
Net cash used by investing activities	(17,209)	(1,154,868)
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment and capital purchases	37,249	603,975
Payments of annuity obligations	(97,265)	(11,681)
Payments on long-term debt	(331,702)	(356,189)
Proceeds from new annuities	110,000	
Advances on short-term note, less repayments	(680,000)	1,068,000
Change in student loan payable - net	21,355	624,894
Net cash provided (used) by financing activities	(940,363)	1,928,999
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(60,512)	108,682
CASH AND CASH EQUIVALENTS, beginning of year	403,319	294,637
CASH AND CASH EQUIVALENTS, end of year	\$ 342,807	\$ 403,319
CASH PAID FOR INTEREST	\$ 744,463	\$ 670,456
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Building improvements and equipment acquired under Chartwell's agreement	\$ 1,000,000	\$

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES**

- A. Basis of accounting - The College utilizes the accrual method of accounting, which recognizes income when earned and expenses when incurred. Donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Monies classified as unrestricted include all funds over which the College has discretionary control and net assets released from restrictions. The temporarily restricted classification is comprised of amounts arising from federal and state grants as well as private gifts for scholarships and other needs of the College. Permanently restricted net assets consist of assets to be held indefinitely primarily for scholarship purposes, the related investment income is recorded as temporarily restricted net assets.

- B. Cash and Cash Equivalents - Cash and cash equivalents consist of cash accounts and money market funds. Cash on deposit with investment managers is not considered a cash equivalent.
- C. Investments - Investments with readily determinable fair values are reported at fair value with realized and unrealized gains and losses included in the statement of activities.
- D. Accounts Receivable - The College values accounts receivable at net realizable value. An allowance for doubtful accounts is established based on review of the aging of the receivables compared with the historical collection results. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. The payment of the balance of student accounts is due at the time of registration. After 30 days, balances begin accruing service charges. Prior outstanding balances are due before the beginning of the new term. The College offers some alternative payment options upon request.
- E. Pledges Receivable - Pledges receivable are unconditional promises to give, recorded at net realizable value when the pledge is made.
- F. Notes Receivable - Notes receivable consist primarily of federally funded Perkins student loans that are to be repaid over various periods at varying interest rates, usually beginning once a student graduates. The Perkins Loan Program acts like a revolving loan fund, and the College is required to administer the loaning and collection of funds. In the event the College cannot collect a specific loan, it is turned over to the Department of Education for collection. The student loans are uncollateralized.

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (Continued)**

- G. Inventories - Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of bookstore items for resale and maintenance supplies held for consumption.
- H. Land, Buildings and Equipment - Land, buildings and equipment is stated at cost or market value at date of gift. Depreciation is computed over the estimated useful life of the assets on the straight-line method. Maintenance and repairs are charged to expense as incurred.
- I. Deferred Loan Issue Costs - Deferred loan issue costs are being amortized on the life of the related loan on a straight-line basis.
- J. Recognition of Contribution and Other Revenue - For financial statement purposes, the College distinguishes between contributions of unrestricted assets, temporarily restricted assets and permanently restricted assets.

The College reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The College reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, the College reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

- K. Classifications - Certain 2005 balances have been reclassified to conform with 2006 presentations.



**OLIVET COLLEGE  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF ACCOUNTING POLICIES (Concluded)**

**L. Capital Outlay and Maintenance Projects**

Capital outlay projects meeting the following criteria are recorded as capital additions of the unrestricted fund:

1. New buildings and additions to buildings;
2. Renovation, remodeling or modernization projects resulting in a basic change in the use or occupancy of existing facilities and replacement of major equipment items, including vehicles;
3. Acquisition of an existing facility; and
4. Individual amounts exceeding \$1,000.

**NOTE 2 - NATURE OF THE ORGANIZATION, RISKS AND UNCERTAINTIES**

Established in 1844, Olivet College is a private, liberal arts institution located in south central Michigan. The College remains dedicated to its vision of *Education for Individual and Social Responsibility* by providing a quality higher education to all, regardless of gender, race or financial means. The College is home to more than 1,100 students, who study under *The Olivet Plan*. In this unique education experience, students engage in both curricular and co-curricular programs that combine real world experiences with lectures and service learning.

The College is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments, which potentially subject the College to concentrations of credit risk consist principally of cash and revenue receivable. The College's cash is deposited with high-credit-quality financial institutions. Although such cash balances exceeded the federally insured limits at certain times during the year and at year-end they are, in the opinion of management, subject to minimal risk. Credit risk with respect to revenue receivable is limited because the majority of revenue receivable is due from governmental units.

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements and the allocation of functional expenses. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 3 - TAX STATUS**

The College is exempt from federal income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code, except for tax on "unrelated business income," as defined. No provision for income taxes is required.

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - INVESTMENTS**

The fair value of investments is estimated based on quoted market prices for those of similar investments. For the years ended June 30, 2006 and June 30, 2005, the College withdrew \$360,996 and \$480,000 of appreciation on endowments, respectively.

Investments in endowment and other at June 30 consist of the following:

	2006	2005
Cash and money market	\$ 607,911	\$ 956,960
Corporate equities	9,104,075	8,580,684
Government obligations	600,717	388,703
Other	25,600	25,600
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 10,338,303</u>	<u>\$ 9,951,947</u>

Investments in split interest agreements at June 30 consist of the following:

	2006	2005
Cash and money market	\$ 901,527	\$ 960,910
Corporate equities	1,820,618	1,600,868
Government obligations	58,872	39,065
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 2,781,017</u>	<u>\$ 2,600,843</u>

Investment income consists of the following:

	2006	2005
Interest and dividends, net of fees	\$ 177,468	\$ 225,133
Net realized and unrealized gains	612,476	513,679
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 789,944</u>	<u>\$ 738,812</u>

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - PLEDGES RECEIVABLE**

Pledges receivable are unconditional promises to give that are expected to be collected subsequent to June 30, 2006 and 2005 are as follows:

	2006	2005
Receivable in less than one year	\$ 73,516	\$ 82,738
Receivable in one to five years	191,204	223,949
Receivable in six to ten years	50,000	90,000
	<hr/>	<hr/>
Total	314,720	396,687
	<hr/>	<hr/>
Less allowance for uncollectible pledges	55,000	60,000
Less discount to present value	33,213	40,491
	<hr/>	<hr/>
Total pledges receivable	<u>\$ 226,507</u>	<u>\$ 296,196</u>

The pledges are recorded at their fair value at June 30, 2006 and 2005, which represents the present value of estimated future cash flows from unconditional promises to give, discounted using an interest rate of 4.75 percent.

**NOTE 6 - LAND, BUILDINGS AND EQUIPMENT**

Major classes of land, buildings and equipment at June 30 consist of the following:

	2006	2005
Land	\$ 252,372	\$ 252,372
Land and improvements	765,385	759,229
Buildings and improvements	22,773,735	22,069,301
Furniture, fixtures and equipment	5,289,594	4,755,884
Artwork and collectibles	76,000	76,000
Library books	681,846	681,846
	<hr/>	<hr/>
	29,838,932	28,594,632
Less accumulated depreciation	12,567,509	11,716,408
	<hr/>	<hr/>
	<u>\$ 17,271,423</u>	<u>\$ 16,878,224</u>
	<hr/>	<hr/>
Depreciation	<u>\$ 863,339</u>	<u>\$ 790,498</u>

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - LINE OF CREDIT**

During the year ended June 30, 2006, the College obtained a bank line of credit for \$7,250,000, with interest at 30-day LIBOR rate plus 1.2 percent, actual rate at June 30, 2006 was 6.53 percent, which replaced the lines in the subsequent paragraph. At June 30, 2006, the outstanding balances were \$5,318,000 and \$5,998,000 at June 30, 2005. Interest expense on short-term debt was \$348,378 and \$221,530 for the years ended June 30, 2006 and 2005, respectively.

At June 30, 2005, the College had credit arrangements with two banks providing for an unsecured line of credit available of \$1,000,000, expiring in December 2005 and also an available \$4,500,000 line of credit, which is collateralized with certain College assets as indicated in the note agreements which has no stated expiration. The College obtained an additional \$6,000,000 line of credit in 2005, which is collateralized with certain College assets as indicated in the note agreements, expiring in April 2006. The \$1,000,000 line of credit with the bank is a variable rate note whose interest rate is 5.50 percent, or the prime rate, whichever is higher; actual rate at June 30, 2005 was 6.25 percent. The \$4,500,000 line of credit's interest is based on the 30-day LIBOR rate plus 2.25 percent; actual rate at June 30, 2005 was 5.59 percent. The \$6,000,000 line of credit's interest is based on the 30-day LIBOR rate plus 1.5 percent, actual rate at June 30, 2005 was 4.84 percent.

**NOTE 8 - LONG-TERM DEBT**

Long-term debt consists of the following obligations:

	<u>2006</u>	<u>2005</u>
Michigan Higher Education Facilities Authority loan agreement (1999 Series), collateralized by a bank letter-of-credit agreement, bearing interest at a variable rate as adjusted by the Authority (5.00% to 5.50% at June 30, 2006 and 2005, respectively), due in annual principal and semiannual interest payments through October 1, 2019; principal payments range from \$340,000 to \$700,000	\$ 6,420,000	\$ 6,740,000
Note payable to bank, unsecured, due in monthly installments of \$2,375, including interest at 8.25%, balance due June 18, 2008	248,918	259,135
Note payable to bank, collateralized by real estate, due in monthly installments of \$905, including interest at 6.50%, balance due May 1, 2010	<u>73,090</u>	<u>74,575</u>
Total	6,742,008	7,073,710
Long-term debt due in one year	<u>(354,565)</u>	<u>(340,291)</u>
Long-term debt	<u><u>\$ 6,387,443</u></u>	<u><u>\$ 6,733,419</u></u>

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - LONG-TERM DEBT (Concluded)**

Debt matures as follows:

Year ending June 30,	
2007	\$ 354,565
2008	607,363
2009	387,166
2010	452,914
2011	425,000
2012 and after	<u>4,515,000</u>
Total	<u><u>\$ 6,742,008</u></u>

Interest expense on long-term debt was \$391,960 and \$437,775 for the years ended June 30, 2006 and 2005, respectively.

**NOTE 9 - LIABILITIES UNDER SPLIT-INTEREST AGREEMENTS**

Olivet College is the beneficiary of various trust and contractual agreements under which the College receives current income or will receive benefits in the future when assets are distributed. In prior years, the amounts representing the College's interest are recorded at the present value of amounts expected to be received, which approximates market value of the funds. During 2005, a provision of \$480,000 was made to reduce the value for the estimated future distributions to be made to beneficiaries other than the College.

In addition, Olivet College operates a charitable gift annuity program whereby donors receive a life income in exchange for assets conveyed to the College under an annuity contract. The College's liability under the annuity contracts is recorded at present value based on the donor's life expectancy. The discount rate used was 4.6 percent for both years ended June 30, 2006 and 2005.

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10 - RETIREMENT PLANS**

Substantially all employees may elect to participate in retirement plans administered by the Teachers' Insurance and Annuity Association and/or the College Retirement Equities Fund. Under the provisions of these defined contribution pension plans, the College contributes 6 percent of an employee's earnings and the employee contributes 4 percent. College contributions amounted to \$223,541 and \$257,546 for the years ended June 30, 2006 and 2005, respectively.

**NOTE 11 - LEASES**

The College leases copiers, printers and a house. Lease payments amounted to \$13,907 for the year ended June 30, 2006.

Future minimum lease payments required under such leases are as follows:

Year ending June 30,	
2007	\$ 35,260
2008	35,260
2009	35,260
2010	35,260
2011	<u>14,135</u>
	<u><u>\$ 155,175</u></u>

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consist of funds generated from activities and transactions relating to student financial aid, reserves maintained for the servicing of the physical properties and contributions received by the College that require income earned on the assets to be paid to a designated beneficiary until death or termination of the agreement. Restrictions are satisfied either by the passage of time or actions by the College.

	Balance July 1, 2005	Additions	Transfers to unrestricted	Balance June 30, 2006	Transfers to unrestricted 2005
Operations:					
Instruction related activities	\$ 105,943	\$ 160,478	\$ (175,563)	\$ 90,858	\$ 116,860
Academic support activities	6,812	125		6,937	
Athletic activities	98,305	217,693	(265,293)	50,705	199,255
Student activities	88,066	33,505	(24,502)	97,069	37,476
Scholarship activities	282,832	278,579	(318,463)	242,948	258,157
Institutional support activities	56,067	27,338	(27,505)	55,900	84,085
Operating and maintenance of plant	39,408	21,500	(45,982)	14,926	56,433
Total operations	677,433	739,218	(857,308)	559,343	752,266
Long-term investments:					
Earnings and appreciation on endowments	118,842	432,156	(360,996)	190,002	480,000
Gift annuities	101,933	41,544		143,477	
Student loans	278,324	1,710		280,034	
Total long-term investments	499,099	475,410	(360,996)	613,513	480,000
Property:					
Academic programs	169,578	21,232	(49,400)	141,410	193,108
Athletic facilities	144,928		(19,087)	125,841	837,208
Phase 2 athletic facility	550,950	46,180		597,130	
General and other					23,879
Total property	865,456	67,412	(68,487)	864,381	1,054,195
Total temporarily restricted	<u>\$ 2,041,988</u>	<u>\$ 1,282,040</u>	<u>\$ (1,286,791)</u>	<u>\$ 2,037,237</u>	<u>\$ 2,286,461</u>

**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of funds generated from transactions and activities relating to contributions received by the College, with permanent donor imposed restrictions placed over the use of the funds.

	Balance July 1, 2005	Gifts	Change in value	Investment income	Balance June 30, 2006
Split interest agreements:					
Scholarship and honorariums	\$ 1,363,357	\$	\$ (24,290)	\$ 91,278	\$ 1,430,345
General activities of the College	757,486		(93,148)	133,120	797,458
Total split interest agreements	2,120,843		(117,438)	224,398	2,227,803
Permanently restricted for endowment:					
Scholarship and honorariums	6,540,837	37,838			6,578,675
Buildings and equipment	533,701	68,102			601,803
Public speaking	32,175				32,175
General activities of the College	2,866,224	1,478			2,867,702
Total endowments	9,972,937	107,418			10,080,355
Total	<u>\$ 12,093,780</u>	<u>\$ 107,418</u>	<u>\$ (117,438)</u>	<u>\$ 224,398</u>	<u>\$ 12,308,158</u>



**OLIVET COLLEGE**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 14 - FUNCTIONAL ALLOCATION OF EXPENSES**

The functional allocation of the College's expenses as they relate to education and general expenses are listed below. The following includes the allocation of both direct and indirect expenses by function.

	2006	2005
Instruction	\$ 4,423,237	\$ 4,598,537
Academic support	1,034,596	958,867
Student services	1,490,945	1,773,144
Athletics	2,355,781	2,152,036
Administration and institutional support	2,043,885	2,311,788
Fundraising	655,935	810,658
Auxiliary	3,700,094	3,499,639
	<u>\$ 15,704,473</u>	<u>\$ 16,104,669</u>

Certain prior year amounts including depreciation, interest and operations and maintenance of the plant have been reclassified to conform to the current year format.

**NOTE 15 - CONTRACT - CHARTWELL'S**

On January 12, 2005, the College entered into an agreement with Compass Group USA, Inc. by and through its Chartwell Division to manage the College's food service program including catering service on the campus of Olivet College.

In exchange for a 10 year contract expiring June 30, 2015, as amended by the agreement signed May 19, 2005, Chartwell's funded an investment in the College's premises to facilitate the performance of services and provide a signing bonus.

The total investment amounted to \$1,100,000. The investment is to be amortized over the remaining life of the contract, calculated on a straight-line basis. If the agreement is terminated for any reason prior to June 30, 2015, the College is liable for the unamortized portion, currently \$1,000,969 at June 30, 2006.

**NOTE 16 - CONTINGENCIES**

The College participates in various student financial aid programs, which are subject to audit by grantor agencies. Any disallowed claims, including amounts already used may constitute a liability to the College. In the opinion of management, the liability, if any, would be immaterial.

## INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our report on our audit of the basic financial statements of Olivet College for the year ended June 30, 2006 appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on pages iii, and 17 through 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." in a cursive script.

Certified Public Accountants

Lansing, Michigan  
August 31, 2006

**OLIVET COLLEGE**  
**COMBINING SCHEDULE OF FINANCIAL POSITION**  
**JUNE 30, 2006**

	Operations	Student Loan	Long-term Investment	Property	Total
<b>ASSETS</b>					
Cash	\$ 88,638	\$ 73,773	\$	\$	\$ 162,411
Cash and equivalents held for investment purposes	172,230	8,166			180,396
Student accounts receivable (less allowance of \$1,100,460)	531,460				531,460
Other receivables	203,410				203,410
Due from federal and state governments	79,100				79,100
Inventory - maintenance supplies	163,047				163,047
Inventory - bookstore	174,902				174,902
Deposits, prepaid expenses and other assets	25,490		2,000		27,490
Pledges receivable (less allowance of \$55,050)			71,102	155,405	226,507
Due from other funds - net	(981,233)	118,362	153,895	708,976	
Notes receivable (less allowance of \$200,000)		1,680,538			1,680,538
Land, buildings and equipment - net of accumulated depreciation				17,271,423	17,271,423
Investments	37,427		10,300,876		10,338,303
Beneficial interest in split-interest agreements			2,781,017		2,781,017
Deferred loan issuance costs (net of accumulated amortization of \$79,638)				165,096	165,096
Total assets	<u>\$ 494,471</u>	<u>\$ 1,880,839</u>	<u>\$ 13,308,890</u>	<u>\$ 18,300,900</u>	<u>\$ 33,985,100</u>

	Operations	Student loan	Long-term investment	Property	Total
<b>LIABILITIES AND NET ASSETS</b>					
Liabilities:					
Accounts payable	\$ 743,969	\$	\$	\$	\$ 743,969
Accrued compensation and other liabilities	1,097,060				1,097,060
Accrued interest payable	83,369				83,369
Student deposits	234,282				234,282
Short-term notes payable	5,318,000				5,318,000
Contract - Chartwell's				1,000,969	1,000,969
Federal student loan payable		1,600,805			1,600,805
Long-term debt				6,387,443	6,387,443
Long-term liabilities due in one year				354,565	354,565
Liabilities under gift annuities			553,214		553,214
Liabilities under split-interest agreements			114,039		114,039
Total liabilities	<u>7,476,680</u>	<u>1,600,805</u>	<u>667,253</u>	<u>7,742,977</u>	<u>17,487,715</u>
Net assets:					
Unrestricted (deficiency):					
Available for operations	(7,541,552)				(7,541,552)
Net investment in plant				9,693,542	9,693,542
Total unrestricted net assets (deficiency)	(7,541,552)			9,693,542	2,151,990
Temporarily restricted net assets	559,343	280,034	333,479	864,381	2,037,237
Permanently restricted net assets			12,308,158		12,308,158
Total net assets (deficiency)	<u>(6,982,209)</u>	<u>280,034</u>	<u>12,641,637</u>	<u>10,557,923</u>	<u>16,497,385</u>
Total liabilities and net assets	<u>\$ 494,471</u>	<u>\$ 1,880,839</u>	<u>\$ 13,308,890</u>	<u>\$ 18,300,900</u>	<u>\$ 33,985,100</u>

Operations		Student loan	Long-term investments		Property		
Unrestricted	Temporarily restricted	Temporarily restricted	Temporarily restricted	Permanently restricted	Unrestricted	Temporarily restricted	Total
\$ 17,002,757	\$	\$	\$	\$	\$	\$	\$17,002,757
7,838,463							7,838,463
9,164,294							9,164,294
562,525	264,480						827,005
530,170							530,170
308,418							308,418
	259,952						259,952
57,984		1,710	44,078	43,533		30,163	177,468
360,996			(360,996)				
216,098	214,786						430,884
857,308	(857,308)						
12,057,793	(118,090)	1,710	(316,918)	43,533		30,163	11,698,191
4,071,753					351,484		4,423,237
946,725					87,871		1,034,596
1,453,286					37,659		1,490,945
2,104,722					251,059		2,355,781
1,981,120					62,765		2,043,885
630,829					25,106		655,935
11,188,435					815,944		12,004,379
869,358	(118,090)	1,710	(316,918)	43,533	(815,944)	30,163	(306,188)
1,745,447							1,745,447
1,575,772							1,575,772
633,463							633,463
304,123							304,123
4,258,805							4,258,805

Operations		Student loan	Long-term investments		Property		
Unrestricted	Temporarily restricted	Temporarily restricted	Temporarily restricted	Permanently restricted	Unrestricted	Temporarily restricted	Total
\$ 240,626	\$	\$	\$	\$	\$	\$	\$ 240,626
1,316,417							1,316,417
475,086							475,086
264,404							264,404
52,523							52,523
911,683					439,355		1,351,038
3,260,739					439,355		3,700,094
998,066					(439,355)		558,711
1,867,424	(118,090)	1,710	(316,918)	43,533	(1,255,299)	30,163	252,523
(243,329)						37,249	37,249
(331,702)					243,329		
				(160,971)	331,702		(160,971)
			388,078	224,398			612,476
68,487						(68,487)	
(391,960)					391,960		
			41,544	107,418			148,962
(898,504)			429,622	170,845	966,991	(31,238)	600,467
968,920	(118,090)	1,710	112,704	214,378	(288,308)	(1,075)	890,239
(8,510,472)	677,433	278,324	220,775	12,093,780	9,981,850	865,456	15,607,146
\$ (7,541,552)	\$ 559,343	\$ 280,034	\$ 333,479	\$12,308,158	\$ 9,693,542	\$ 864,381	\$16,497,385

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**OLIVET COLLEGE**  
**ADDITIONAL REPORTS REQUIRED BY**  
**OMB CIRCULAR A-133**  
**YEAR ENDED JUNE 30, 2006**

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Lamonte T. Lator  
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Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees  
Olivet College  
Olivet, Michigan

August 31, 2006

We have audited the financial statements of Olivet College as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Olivet College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Board of Trustees  
Olivet College  
Olivet, Michigan

August 31, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Olivet College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Olivet College in a separate letter dated August 31, 2006.

This report is intended solely for the information and use of the board of trustees, management U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants



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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees  
Olivet College  
Olivet, Michigan

August 31, 2006

Compliance

We have audited the compliance of Olivet College with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. Olivet College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Olivet College's management. Our responsibility is to express an opinion on Olivet College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Olivet College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Olivet College's compliance with those requirements.

In our opinion, Olivet College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

### Internal Control Over Compliance

The management of Olivet College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Olivet College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Olivet College as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of trustees, management and federal awarding agencies and is not intended and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

**OLIVET COLLEGE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Federal grantor/pass-through grantor/ Program title	Federal CFDA number	Award amount	Current year expenditures
Student Financial Assistance Cluster:			
U.S. Department of Education:			
Federal Pell Grant Program	84.063	\$ 1,375,363	<u>\$ 1,375,363</u>
Federal Supplemental Education Opportunity Grant	84.007	163,320	<u>163,320</u>
Federal Work Study Program	84.033	140,610	<u>140,610</u>
Federal Perkins Loan expenditures	84.038	N/A	<u>357,376</u>
Federal Family Education Loan Program:			
Federal Subsidized Stafford Loans	84.032	N/A	3,236,143
Federal Unsubsidized Stafford Loans	84.032	N/A	2,515,010
Federal PLUS Loans	84.032	N/A	<u>483,481</u>
Total Federal Family Education Loan Program			<u>6,234,634</u>
TOTAL FEDERAL EXPENDITURES			<u><u>\$ 8,271,303</u></u>

See Note 3 on page 6 regarding Federal Perkins Loan Program.

See Note 4 on page 6 regarding Federal Family Education Loan Program.

**OLIVET COLLEGE**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

NOTES:

1. Basis of presentation - The accompanying schedule of expenditures of federal awards includes the grant activity of Olivet College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the financial statements.
2. The Student Financial Aid Cluster, CFDA #84.063, #84.007, #84.033, #84.032 and #84.038, were audited as the major program.
3. The College had Perkins loan balances outstanding at June 30, 2006 of \$1,710,712. The Perkins loan expenditures for the year ended June 30, 2006 consist of new loan advances. The expenditures were funded by collections (principal and interest) on prior loans.
4. The College administers the Federal Family Education Loan (FFEL) Program (CFDA # 84.032). During fiscal year 2005-2006 students received \$6,234,634 of new FFEL loans. These funds were received directly by the students of the College and any interest or other costs related to these loans were received directly by the lender not Olivet College.

**OLIVET COLLEGE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**Section I - Summary of Auditors' Results**

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***Financial Statements***

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified:            Yes   X   No
- Reportable condition(s) identified that are not considered to be material weaknesses?            Yes   X   None reported

Noncompliance material to financial statements noted?            Yes   X   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified:            Yes   X   No
- Reportable condition(s) identified that are not considered to be material weakness(es)?            Yes   X   None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?            Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.063, 84.007, 84.033, 84.032, 84.038	Student Financial Aid Cluster

Dollar threshold used to distinguish between type A and Type B programs:           \$300,000          

Auditee qualified as low-risk auditee?   X   Yes            No

**Section II - Financial Statement Findings**

---

None noted.

**Section III - Federal Award Findings and Questioned Costs**

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None noted.

**OLIVET COLLEGE  
SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2006**

There were no prior audit findings in the previous two years.



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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

August 31, 2006

To the Audit Committee of  
Olivet College  
Olivet, Michigan

In planning and performing our audit of the financial statements of Olivet College for the year ended June 30, 2006, we considered the College's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 31, 2006, on the financial statements of Olivet College.

### **Prior Year Comments**

#### **Student Accounts Receivable**

During testing of student financial aid, it was noted that the College is returning the student portion of loan funds and attempting to collect from the student. It is recommended that the College review its procedures regarding return of Title IV funds.

#### **Resolution**

The College is still continuing to refund student portions and in turn collecting the returned portion from the student, this is an internal policy that the College chooses to follow and is not in violation of Title IV procedures.



### **Cash Receipts**

We recommend that the initial listing of development cash receipts be sent directly to a third party, who then reconciles the bank deposit against the listing of gifts received.

### **Resolution**

Currently the gift receipts are opened by the development secretary who makes an initial listing of the receipts, this list is then forwarded to another individual who enters the receipts into the system and forwards them to accounting for deposit. We recommend the initial listing be forward directly to accounting and the individual depositing the checks should reconcile the deposit ticket with the initial listing.

### **Current Year Comments**

#### **Bank Statement Review**

We suggest that the unopened bank statements received in the mail be forwarded directly to the Chief Financial Officer of Olivet College. The Chief Financial Officer should open and review the bank statements and canceled checks received on a CD and investigate strange or unusual items should any be found. Documentation of the review of the items should be made on the face of the bank statement. We believe that this process will further enhance the checks and balances necessary for strong controls over cash.

### **Daily Cash Reports Comparisons with Deposit Ticket**

Currently, student receipts are prepared by the business office and then forwarded to the accounting department for preparation of the deposit ticket and entry into the general ledger. This practice, however, does not provide a complete control, because the daily report is not reconciled and agreed to the actual deposit. We feel that Olivet College could significantly strengthen its control over cash if an employee independent of cash processing subsequently compares the daily cash reports to the deposit ticket or the bank statement.

### **Outstanding Checks**

At the time of our audit, there were several checks that had been outstanding for several years. Tracking outstanding checks is an important control procedure that ensures that all outgoing checks are accounted for. We suggest that an accurate outstanding check list be kept for each bank account and a periodic review of the list(s) be performed on a timely basis.

### **Cash Disbursements: Sequential, Numerical Check Control**

Cash disbursements control procedures should be designed to be practicable and to provide reasonable assurance that no unauthorized payments are made, all liabilities are timely paid, and payments are accurately recorded. We noted that the Accounts Payable clerk had access to blank check stock. The Chief Financial Officer of Olivet College, or an appropriate designee, should be the custodian of blank check stock, this control should include accounting for the sequential ordering of checks as they are released for use, prior to preparation. We recommend that strict numerical control be kept over all checks issued and that checks be issued in sequence.

### **Cash Disbursements: Signature Stamp**

Our cash disbursements testing disclosed that a signature stamp with two signatures was used to authorize Perkins checks. We strongly suggest that all signatures on checks be original signatures of those authorized to sign and that the use of the signature stamp be terminated or extremely limited. While we clearly understand that there are other valid uses of a signature stamp, such as correspondence, etc., we feel that internal controls can be greatly strengthened if its use is removed from the accounting area.

### **New Vendors**

Consideration should be given to having an individual outside of the payables function be responsible for the set up of new vendors. This will reduce the possibility of non-approved vendors or fictitious vendors being created and subsequently checks written to these vendors. You may also wish to have an individual independent of the payables function periodically review the vendor list.

### **Credit Card Review**

During our audit procedures it was noted that the review for support for credit card expenses was handled by the Chief Financial Officer, however no reviews the Chief Financial Officers credit card expenditures. This practice could result in the payment of unsupported credit card charges and thereby unauthorized expenses. We recommend that the procedures related to credit card charges be amended to require that an independent person review the expenditures on the Chief Financial Officers credit card. We also recommend periodic review of the Presidents credit card by the audit committee.

### **Review of Pay Changes**

The personnel department approves all changes in an employee's gross pay, indicated with all appropriate sign-offs, before this information may be entered into the payroll system, however the person in charge of payroll makes the changes to pay rates without anyone reviewing the changes. Periodically the Chief Financial Officer should review pay rate changes to ensure they are supported by proper documentation.

### **General Journal Entries**

Journal entries which are initiated by the Chief Financial Officer, should be approved as part of the normal internal control process, by someone other than the Chief Financial Officer. We recommend monthly journal entries be discussed with the President when discussing the monthly financial statements.

### **Student Financial Aid**

During our testing of Student Financial Aid we noted one instance where a student loan was paid out in one installment. Title IV procedures require all disbursements made to students be in two installments, either one per semester attended for a full year student or two per semester for a half year student. We considered this an isolated instance.

### **Computer Passwords**

We understand that computer passwords are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend the College institute a policy that requires passwords to be changed on a regular basis. The College may also wish to investigate building into its software automatic expiration of passwords to ensure that they are changed periodically.

### **Disaster Recovery Plan**

With the increased reliance on technology, significant amounts of valuable data are stored electronically. In time of emergency, a formalized program including a secondary off-site system that may be utilized, and guidelines on lines of responsibility and courses of action is invaluable in providing for continuity of information flow. We recommend the College consider developing such a plan. We suggest that management develop a disaster recovery plan that includes, but is not limited to, the following:

- Provide a list of the name, phone number, and order in which to contact personnel from the College in the event of an emergency.
- Identify critical computer hardware needs should the system need to be replaced or relocated. These needs should address specifications for replacement of the file server, communication considerations, workstations, tape backup unit, electrical considerations, possible alternative location, etc.
- Location of, and access to, offsite storage.
- A listing of all data files that would have to be obtained from the offsite storage location.
- Identify primary vendors and alternate suppliers from which to obtain necessary equipment. A tape backup unit, which is compatible with your current system, may be one of the most critical components to locate.
- Include a detailed list of recovery and restore procedures in the plan.
- Consider the possibility that for a short time only minimal computer service and support will be available. Identify those applications that are most critical and the order in which they should be restored.

- Make sure the plan is available at offsite locations and that more than one person is capable of performing the steps identified in the plan.

### **New Auditing Standards**

Recently, 10 new auditing standards have been released and will become effective over the College's next two fiscal years. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach. However, two of the new standards may directly impact the College beginning with the June 30, 2007 year-end.

One of the new standards revises the dating of the auditors' report. Under the old standards, the auditors' report was dated the last day of fieldwork. The new standards define the date as the date adequate audit evidence is obtained. Adequate audit evidence is now being interpreted as including the client's approval of draft financial statements. Although the dating of the report may seem trivial to non-auditors, it does have an impact on auditors' subsequent events work (June 30 through date of the auditors' report). The impact to the College could be if there was a long period of time needed to resolve certain open issues. This would extend the dating of the auditors' report and increase the amount of work we need to complete our subsequent events work.

Another standard effective for the June 30, 2007 year-end is related to our communications with the client. The new standard retained the definition of a “material weakness” and added two new categories of deficiencies “significant deficiency” and “control deficiency”. Certain situations were included as examples of strong indicators of significant deficiencies and possibly material weaknesses. One of the situations is the client is unable to write financial statements, including the footnotes, in accordance with generally accepted accounting principles. Historically, we have prepared the financial statements and footnotes for the College. We will have to evaluate the College’s ability to produce appropriate financial statements and footnotes and, accordingly, if any control deficiencies exists

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Company personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Olivet College, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

A handwritten signature in black ink that reads "Mamey Costeniser, E. Ellis, P.C." The signature is written in a cursive, flowing style.



Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raack  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

August 31, 2006

To the Audit Committee of  
Olivet College  
Olivet, Michigan 49076

We have audited the financial statements of Olivet College for the year end June 30, 2006, and have issued our report thereon dated August 31, 2006. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Olivet College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Olivet College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Olivet College's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Olivet College's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Olivet College's compliance with those requirements.



2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Olivet College are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2006. We noted no transactions entered into by Olivet College during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were as follows:

Allowance on receivables - Pledges, student accounts and notes receivable have allowances assessed on the amount management expects to collect on outstanding balances. This estimate is based on historical collections, and amounts the College has determined are still collectible. Our conclusion regarding the reasonableness of the estimates is based on our review of the aging of the accounts and amounts collected subsequent to year end.

Split interest agreement liabilities - The liability on annuity contracts and trusts is based upon the present value of the estimated future payments to be distributed by the College to donors with gift annuity contracts. Management estimates this liability through published mortality rates, and assumed interest rates. Our conclusion regarding the reasonableness of the estimate is based reviewing the key assumptions made for reasonableness and recalculating a sample of the contracts.

UST remediation payable - The liability on the environmental remediation payable is based upon an estimate provided by the Michigan Department of environmental quality of cost required to clean the area contaminated by a leaking fuel tank and continual monitoring of the MTBE levels in ground water. We reviewed documentation relating to the leak and on going communication with the state and believe the liability is reasonable.

Functional expenses - The functional expenses are allocated based on salary expense and building square footage and its related function. We evaluated the key factors and assumptions used to develop the estimates in determining whether they are reasonable in relation to the financial statements taken as a whole.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Olivet College's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed adjustments decreasing net income by \$148,000. The significant adjustments were to increase the allowance for doubtful accounts by \$30,000, based upon our review of the aging of the outstanding balances, increase depreciation expense in the amount of \$73,000 for additional assets capitalized related to the Chartwells agreement, decrease the annuity liability for \$73,000, for the recalculation of the estimated present value of future annuity payments and to adjust accrued interest of \$34,000 for the recalculated amount of accrued interest payable.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Olivet College's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Audit Committee of  
Olivet College  
Olivet, Michigan

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August 31, 2006

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Audit Committee, management and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Mammy Costigan & Ellis, P.C.*